

British Columbia Petroleum Corporation

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Annual Report 1984/1985

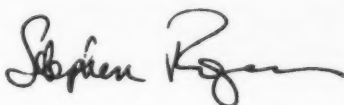
British Columbia Petroleum Corporation

Letter of Transmittal

To His Honour the Honourable
Robert G. Rogers
Lieutenant-Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

*I have the pleasure to submit the
Annual Report of the British
Columbia Petroleum Corporation
for the year ended March 31, 1985.*



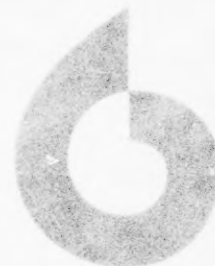
Stephen Rogers,
Minister of Energy, Mines and
Petroleum Resources,
Province of British Columbia.

The Corporation

The British Columbia Petroleum Corporation was established on November 8, 1973, as an agency of the Crown, under the Petroleum Corporation Act. The primary function of the Corporation is to market the natural gas produced in British Columbia by purchasing gas from producers and selling it to Westcoast Transmission Company Limited, under an agreement dated November 13, 1973.

Under this agreement, Westcoast Transmission Company Limited novated all its British Columbia gas purchase contracts to the Corporation while retaining the functions of gathering, processing and transporting the gas and selling it to the various domestic utilities and to its U.S. customer, Northwest Pipeline Corporation. Westcoast retains from the proceeds of gas sales its cost of service, including a return on its rate base, and remits the balance of the proceeds to the Corporation, which in turn deducts the payment to the producers and its administrative costs, and remits the net amount to the Provincial Treasury. Under the new natural gas marketing system, due to be implemented on July 1, 1985, the producers will pay a royalty on the revenues that they receive from the sale of gas and therefore no revenues from the resale will accrue to the Corporation.

Since the Corporation negotiates directly with producers for the purchase of gas, it ensures the development of British Columbia's natural gas resources in a manner consistent with provincial government policy. The Corporation is the owner of all sulphur and natural gas liquids extracted during the processing of raw gas and is also responsible for selling these by-products.



Report of the Directors

The year ended March 31, 1985, produced mixed results. Although sales of British Columbia gas increased by 5.3% to 6781 from 6442 million cubic metres, net income suffered a reduction of 14.1%. The increase in sales volume was entirely due to an improved demand by the domestic sector but was, in itself, insufficient to overcome the effect of a serious decline in the sale of export volumes that occurred in spite of lower prices.

Sales to British Columbia domestic distributors increased by 11.2% to 4894 from 4403 million cubic metres. Unlike the

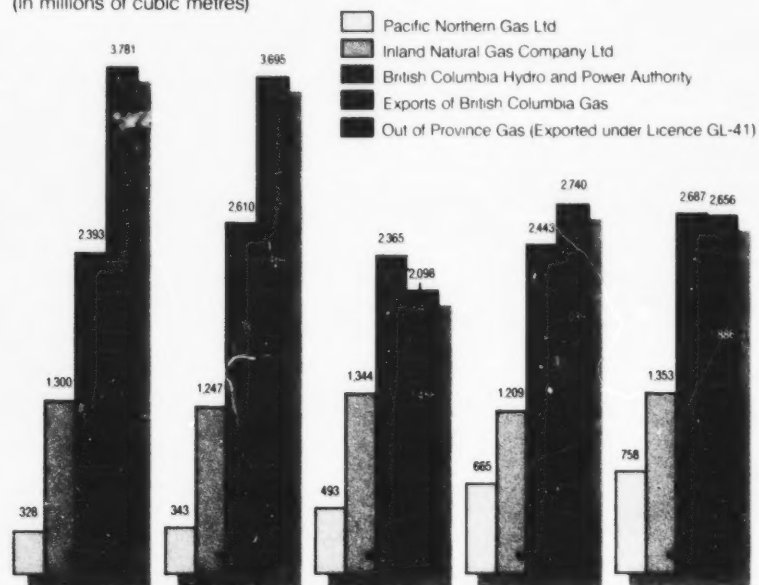
previous year, all distributors experienced strong growth in demand partly due to a colder than average winter. The increases ranged from 10% for B.C. Hydro to 14% for Pacific Northern Gas.

Export sales to Northwest Pipeline Corporation were disappointingly low. Despite a renegotiation of the export sales agreement, undertaken to recognize and accommodate the forces at work in the marketplace and which resulted in a reduction in the selling price of gas of

approximately 25%, effective November 1, 1984, sales remained flat during the period of the new contract, and over the year as a whole were down by 7.5% to 1886 from 2039 million cubic metres. As the new agreement includes a guaranteed share of Northwest Pipeline's market, it would appear that the Pacific Northwest market area is providing limited opportunities for the sale of any gas.

During the year under review, the Government published its "Final Decisions And Comments" on the restructuring of the province's natural gas industry.

Natural Gas Sales (in millions of cubic metres)



Natural Gas Liquids Sales (cubic metres)



This allowed the Corporation to prepare for the implementation of the new gas marketing system and all our producers have received a draft of the contract amendments that will give effect to the government's decisions. It is anticipated that the new system will be fully implemented early in the next financial year. In the meantime, both of the province's petrochemical producers: Ocelot Investments Limited and Cominco Limited, are benefitting from obtaining their gas supply directly from producers at negotiated prices. Also during the year, Czar Resources Limited

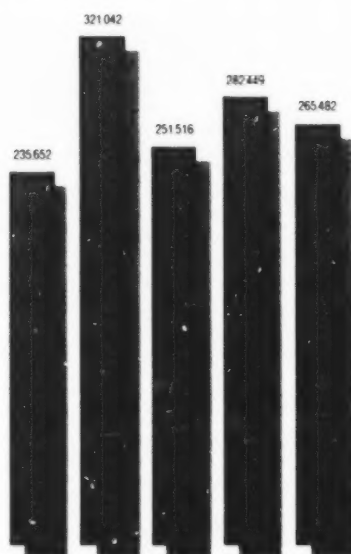
obtained the first gas export licence given to a producer for a direct sale to a customer other than a pipeline or distributor in the United States. Other direct "end use" sales, both domestic and export, are being pursued by producers.

The Corporation is pleased to acknowledge the cooperation it has received from the majority of its producers in dealing with the severe and continuing problem of low gas sales. As a result of amendments to our gas purchase

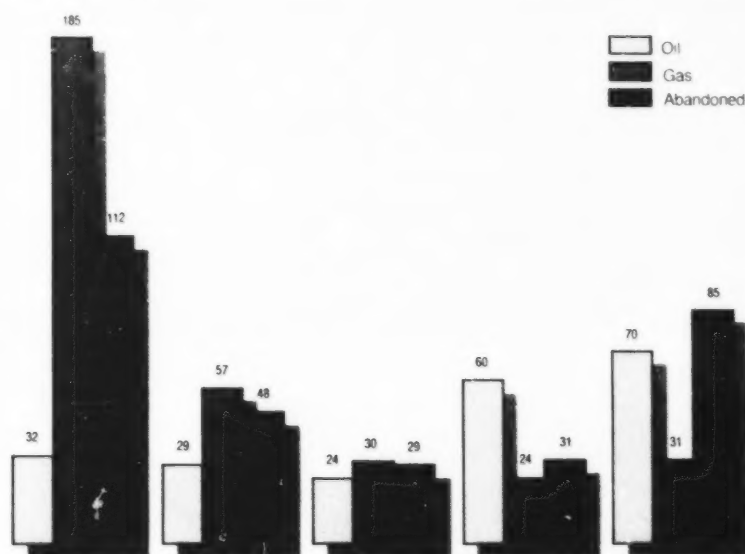
contracts to a 40% annual load factor for the calendar year 1984, the Corporation was able to make a start in the recovery of its outstanding volume of pre-paid gas. The new gas marketing system will deal with this issue by including provisions which will allow the equitable allocation of available market to all producers and the full recovery of pre-paid gas in an orderly manner.

Revenues from the sale of by-products recorded another satisfactory increase although volume sales of both sulphur and natural gas liquids were lower than the previous year. Prices,

Sulphur Sales
(tonnes shipped)



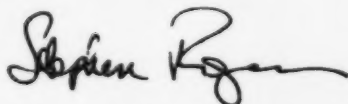
Wells Completed
(by classification)



particularly for sulphur, were higher.

In its report for last year, the Board expressed the hope that demand for British Columbia gas in the U.S. Pacific Northwest would recover as the economy of the U.S. improved and the "gas bubble" deliverability declined. Although opinions on the extent of this surplus differ widely, it is clear that stimulation of the provincial gas industry will depend on other markets. The potential to supply gas to the projected Canada LNG Ltd's plant at Prince Rupert, and the proposed pipeline to Vancouver Island, as well as the possibility of gas sales to enhanced oil recovery projects in California, are three such markets, and the new gas marketing system will permit producers to pursue them.

In conclusion, the Board would like to thank the staff of the Corporation for their efforts throughout the past year.



STEPHEN ROGERS,
Chairman

The prices paid to producers are based on a formula which was first introduced in 1977. Minor revisions have been made since that date. Under this formula, the Corporation pays producers a base price of \$52.9500 per thousand cubic metres for old gas and \$58.4873 per thousand cubic metres for new gas, plus 48% of the difference between the actual deemed value in a month (as calculated under Section 69(8) of the Income Tax Act) and \$88.2500, plus a rebate of \$7.6137 and \$7.9598 per

thousand cubic metres for old and new gas respectively. The formula is reproduced below:

$$\text{Old Gas} = \$52.9500 + 48\% \\ (\text{deemed value} - \$88.2500) \\ + \$7.6137$$

$$\text{New Gas} = \$58.4873 + 48\% \\ (\text{deemed value} - \$88.2500) \\ + \$7.9598$$

In general, gas produced from pools which flowed prior to November 14, 1973, qualifies as "old" gas, and gas produced from pools flowing after that date qualifies as "new" gas.

The monthly deemed value of gas purchased by the Corporation and the prices paid for old and new gas during the year are shown below:

	DEEMED VALUE \$/10 ³ m ³	PRICE PAID FOR OLD GAS \$/10 ³ m ³	PRICE PAID FOR NEW GAS \$/10 ³ m ³
1984			
April	74.8706	54.1416	60.0250
May	73.1788	53.3295	59.2129
June	33.4541	34.2617	40.1451
July	58.4295	46.2499	52.1333
August	60.8330	47.4035	53.2869
September	65.1221	49.4623	55.3457
October	52.0653	43.1950	49.0784
November	85.9212	59.4459	65.3293
December	92.6810	62.6906	68.5740
1985			
January	95.3255	63.9599	69.8433
February	89.6276	61.2249	67.1083
March	85.1064	59.0548	64.9382

Financial Review

The Corporation's net income for the year amounted to \$140,013,142. This represented a reduction of 14.1% from the net income of \$163,056,775 recorded for the previous year. The main reason for this decrease was the weakening export market where, despite the reduced export price, the volume of gas sold was 7.5% lower than a year earlier. Export sales revenue was 25.5% lower at \$301,751,000 and export volume was 1,886 million cubic metres compared with 2,039 million cubic metres. Domestic sales revenues and volumes increased significantly

during the year, but not to a level to offset the losses in the export market. Domestic sales revenues increased 25.9% to \$451,375,000 and the volume of gas sold increased 11.2% from 4,403 million cubic metres to 4,894 million cubic metres. Revenues from by-products increased primarily due to the higher sulphur prices that prevailed throughout the year.

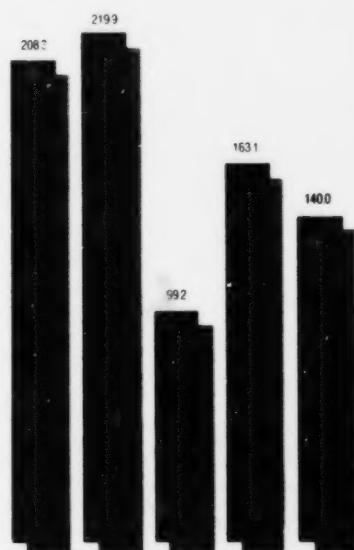
During the year, the Corporation reached agreement with all but eight of its producers for a reduction to a 40% load

factor in the Corporation's minimum annual volume obligation for the 1984 contract year. The Corporation is hopeful that agreement will be reached with the eight producers who have not yet consented to the reduced load factor. Despite the number of producers who have agreed to the reduced obligation for 1984, the Corporation's accumulated deficiency gas increased to \$112,139,002 at March 31, 1985.

In late 1984, the Corporation participated in the hearing conducted by the National Energy Board regarding the method of regulation for Westcoast Transmission Company Limited. The Board, by its decision dated April, 1985, required Westcoast to change to a fixed toll method of regulation and that the company must file an application with the Board for new tolls.

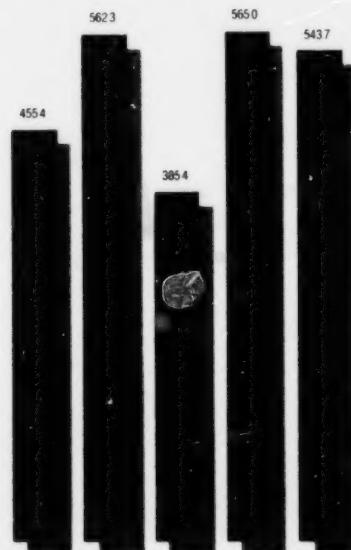
Net Income

(in millions of dollars)



Revenue

(in millions of dollars)



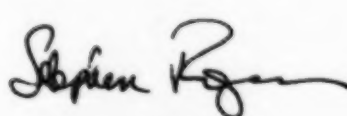
Consolidated Balance Sheet

March 31, 1985

	1985	1984
ASSETS		
Current assets		
Cash	\$ 30,086,632	\$ 26,339,185
Accounts receivable	97,042,792	52,862,608
Prepaid expenses	33,772	65,133
	<u>127,163,196</u>	<u>79,267,126</u>
Prepaid gas (Note 2)	112,139,002	105,818,083
Property account (Note 3)	<u>259,592</u>	<u>213,155</u>
Other assets		
Deferred receivable (Note 4)	42,465,279	32,454,594
Debt issue expenses	127,260	169,680
Mortgages	68,169	77,272
	<u>42,660,708</u>	<u>32,701,546</u>
	<u>\$282,222,498</u>	<u>\$217,999,910</u>
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable and accrued charges	\$ 83,376,763	\$ 70,866,948
Liability for future gas supply (Notes 5 and 10)	30,475,487	34,241,135
Deferred liability (Note 6)	2,465,279	—
Long-term debt (Note 7)	30,000,000	30,000,000
Retained earnings	135,904,969	82,891,827
	<u>\$282,222,498</u>	<u>\$217,999,910</u>

Commitments (Note 9)

Approved by the Directors:



Director



Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income and Retained Earnings

Year ended March 31, 1985

	1985	1984
Revenue		
Sales from natural gas, natural gas liquids and sulphur	\$543,651,962	\$564,961,030
Expenses		
Gas and by-product purchases	404,888,963	402,258,139
Administrative and general expenses	1,944,981	1,707,949
	406,833,944	403,966,088
Operating income before interest	136,818,018	160,994,942
Interest (Note 8)	3,195,124	2,061,833
Net income	140,013,142	163,056,775
Retained earnings at beginning of year	82,891,827	63,535,052
	222,904,969	226,591,827
Deduct: Transfers to Provincial Treasury	87,000,000	143,700,000
Retained earnings at end of year	\$135,904,969	\$ 82,891,827

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended March 31, 1985

	1985	1984
Source of funds		
Operations		
Net income	\$140,013,142	\$163,056,775
Add items not involving outlay of funds:		
Depreciation and amortization	110,400	108,455
Loss (gain) on disposal of fixed assets	1,121	(6,224)
Recovery of future gas supply	(3,765,648)	—
	136,359,015	163,159,006
Proceeds from disposal of fixed assets	325	7,000
Mortgages and other deferred charges	9,103	10,099
Increase in deferred liability	2,465,279	—
Payment on future gas supply	—	19,707,517
	138,833,722	182,883,622
Application of funds		
Prepaid gas	6,320,919	40,285,326
Property additions	115,863	23,450
Transfers to Provincial Treasury	87,000,000	143,700,000
Deferred receivable	10,010,685	32,454,594
	103,447,467	216,463,370
Increase (decrease) in working capital	35,386,255	(33,579,748)
Working capital at beginning of year	8,400,178	41,979,926
Working capital at end of year	<u>\$ 43,786,433</u>	<u>\$ 8,400,178</u>

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

March 31, 1985

Note 1 Summary of Significant Accounting Policies

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiary, British Columbia Gas Corporation.

GAS SALES

Under the terms of an agreement between Westcoast Transmission Company Limited and British Columbia Petroleum Corporation effective November 1, 1973, the Corporation sells natural gas to Westcoast Transmission Company Limited at a price equal to the gross revenue received by that Company on the resale thereof less the total cost of service of that Company's utility system operation.

DEPRECIATION

Furniture, equipment, automobiles and leasehold improvements are recorded at cost and depreciation is provided at rates considered adequate to amortize the cost over the service lives of the assets. Depreciation is computed on a straight-line basis.

Note 3 Property Account

	COST	ACCUMULATED DEPRECIATION & AMORTIZATION	1985 NET BOOK VALUE	1984 NET BOOK VALUE
Furniture	\$313,862	\$158,701	\$155,161	\$ 99,814
Automobiles	39,261	23,185	16,076	25,916
Leasehold improvements	233,359	145,004	88,355	87,425
	<u>\$586,482</u>	<u>\$326,890</u>	<u>\$259,592</u>	<u>\$213,155</u>

Note 2 Prepaid Gas

Under its gas purchase contracts with producers, the Corporation is obligated to purchase and take delivery of, or pay for, a specified minimum annual volume of gas. In the contract years 1980—1984 inclusive, the Corporation was unable to take delivery of the minimum volume of gas and, therefore, is liable to pay for the resulting shortfall (deficiency gas). The Corporation is entitled to take delivery of deficiency gas within a period of ten years from the date incurred, with an adjustment for the prices prevailing when such gas is delivered.

In 1984, all but eight of the gas producers with whom the Corporation is contracted agreed to a reduction in the Corporation's minimum annual volume obligation. Based on the agreements that have been reached with producers for a reduced obligation in 1984, the Corporation's accumulated deficiency gas amounted to \$112,139,002 at March 31, 1985.

Note 4 Deferred Receivable

The deferred receivable of \$42,465,279 represents the amount of credit extended to Ocelot Investments Ltd. as at March 31, 1985, under an agreement whereby the Corporation, and its subsidiary, British Columbia Gas Corporation, have agreed to extend Ocelot Investments Ltd. credit up to a maximum of \$45,000,000. Repayment of this receivable, which is secured by a first fixed and floating charge on the assets of that company, will commence on May 1, 1986, and is repayable over 18 years with interest at three quarters of one percent over prime.

Note 5 Liability for Future Gas Supply

Liability for future gas supply represents payments for deficiency gas incurred by a distributor in 1981, 1982 and 1983. Such deficiency gas volumes may be recovered from the Corporation within five years from the date incurred without further payment.

Note 6 Deferred Liability

The deferred liability of \$2,465,279 represents the deferral, under an agreement with Pacific Northern Gas Ltd., in the payment of a portion of the billing for gas delivered to British Columbia Gas Corporation. The balance outstanding, including accrued interest at a rate of not less than three quarters of one percent over prime, shall not exceed \$5,000,000 and is repayable over five years commencing on May 1, 1986.

Note 7 Long-Term Debt

Long-term debt comprises \$30,000,000 11% Notes, due in 1988, which are unconditionally guaranteed as to principal and interest by the Province of British Columbia.

Note 8 Interest

	1985	1984
Interest Income		
Province of British Columbia	\$2,164,462	\$4,147,445
Other	5,080,781	1,369,343
	<u>7,245,243</u>	<u>5,516,788</u>
Less: Interest expense	4,007,152	3,412,500
Amortization of debt issue expenses	42,967	42,455
	<u>4,050,119</u>	<u>3,454,955</u>
	<u>\$3,195,124</u>	<u>\$2,061,833</u>

Note 9 Commitments

- (1) Under agreements with producers which waive the Corporation's liability to pay for deficiency gas incurred in 1980, the Corporation is committed to purchase and take delivery of, or pay for, a specified volume of such gas in each year to 1991. At March 31, 1985, the Corporation's aggregate liability under these agreements was estimated at approximately \$22,337,000.
- (2) The Corporation has commitments under agreements for the lease of office premises extending to 1989. The aggregate rentals payable under leases amounted to approximately \$1,015,000 at March 31, 1985.

Note 10 Subsequent Event

Subsequent to March 31, 1985 the Corporation agreed to return, by July 1, 1985, the volumes of gas represented by the amount of \$30,475,487, being the Corporation's liability for Future Gas Supply, to the distributor who paid for those volumes. The net loss of revenues on the volumes of gas returned to the distributor amounts to approximately \$13,500,000.

**To the Lieutenant-Governor In Council,
Province of
British Columbia**

We have examined the consolidated balance sheet of British Columbia Petroleum Corporation as at March 31, 1985, and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of British Columbia Petroleum Corporation as at March 31, 1985, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Wolrige,
Mahon & Company*

Wolrige, Mahon & Company
Chartered Accountants
900 West Hastings Street,
Vancouver, B.C. V6C 1W4
May 22, 1985

Five Year Summary

YEAR ENDED MARCH 31	1985	1984	1983	1982	1981
Volumes					
Domestic sales — (10 ³ m ³)	4,894,318	4,403,010	4,287,164	4,283,565	4,093,999
— (Mcf)	172,774,147	155,430,488	151,341,010	151,213,971	144,522,117
Export sales — (10 ³ m ³)	1,886,415	2,032,496	1,458,000	2,464,017	2,411,307
— (Mcf)	66,592,275	71,960,884	51,468,793	86,982,174	85,121,456
Sulphur sales — tonnes shipped	265,482	282,449	251,516	321,042	235,652
Natural gas liquids — (m ³)	226,898	231,489	236,914	244,306	237,926
Average Selling Price of Gas					
Domestic — \$ per 10 ³ m ³	92.2243	81.4546	69.3503	58.1420	41.4221
— \$ per Mcf	2.6125	2.3074	1.9645	1.6470	1.1734
Export — \$ per 10 ³ m ³	159.9602	198.6800	221.2415	215.8722	195.1684
— \$ per Mcf	4.5313	5.6282	6.2673	6.1152	5.5287
Average Purchase Price of Gas					
Old gas — \$ per 10 ³ m ³	55.4341	57.2490	42.0536	45.1660	32.4350
— \$ per Mcf	1.6018	1.6542	1.2151	1.3051	0.9372
New gas — \$ per 10 ³ m ³	62.3398	64.9556	53.8178	56.8414	40.6557
— \$ per Mcf	1.8013	1.8769	1.5551	1.6424	1.1748
Financial Statistics (thousands of dollars)					
Revenue:					
Gas and by-product sales	\$543,652	\$564,961	\$385,393	\$562,270	\$455,380
Expenses:					
Gas and by-product purchases	404,889	402,258	287,129	349,149	247,168
Administrative and general expenses	1,945	1,708	1,474	1,427	1,542
	406,834	403,966	288,603	350,576	248,710
Operating income before interest	136,818	160,995	96,790	211,694	206,670
Interest	3,195	2,062	2,433	8,228	1,656
NET INCOME	\$140,013	\$163,057	\$ 99,223	\$219,922	\$208,326

Corporate Information

Directors:

Honourable Stephen Rogers
*Minister of Energy, Mines &
Petroleum Resources*
Chairman of the Board

Philip D. Granam
*President and Chief Executive
Officer, Graymont Limited*
Vice Chairman of the Board

Honourable Patrick L. McGeer
*Minister of Universities, Science
& Communications*

Donald W. Rawlyk
*General Manager &
Manager, Natural Gas Division*

Senior Personnel:

Donald W. Rawlyk
*General Manager &
Manager, Natural Gas Division*

Sidney T. Akers
*Manager, Gas Supply &
Special Projects*

Gordon S. Thomas
Comptroller

Bruna M. Martinuzzi
Corporate Secretary

Leonard D. Anderson
Chief Geologist

J. Brian Williston
Chief Engineer

Neil C. Beaton
Contracts Administrator

Gordon A. Pearson
Assistant Comptroller

Corporate Offices:

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